Eastern Rural Telecom Association

October 19, 2011

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

RE: Connect America Fund, WC Docket No. 10-90; A National Broadband Plan for Our Future, GN Docket No. 09-51; Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135; High-Cost Universal Service Support, WC Docket No. 05-337; Developing an Unified Intercarrier Compensation Regime, CC Docket No. 01-92; Federal-State Board on Universal Service, CC Docket No. 96-45

Dear Ms. Dortch:

The Eastern Rural Telecom Association ("ERTA") is a membership organization made up of community based rural local exchange companies ("RLECs") and support companies that provide telecommunications services to rural customers in the Eastern half of America. Besides providing local, long distance, and broadband Internet services, some ERTA members also provide wireless and cable television services. ERTA members play an important role in sustaining the rural communities served.

ERTA members are deeply concerned about harm and price shock to customers in rural America that will occur as a result of reforms that do not allow for cost recovery support. If the FCC were to make decisions that cap or otherwise drastically reduce support, cause dramatic increases to retail rates, and lead to further uncertainty, it will result in consumer sticker shock and a freeze on future infrastructure investments made by RLECs. An investment freeze will not result in job growth in rural areas, to the contrary it will result in job losses. ERTA does not believe it is wise public policy for reform to cause the elimination of existing telecommunications jobs in rural America, particularly if the Commission doesn't take action on the portions of this docket that stimulate job growth, namely, the RLEC Connect America Fund ("CAF").

Without sufficient and predictable Universal Service Fund ("USF") and Intercarrier Compensation ("ICC") cost recovery support, it would be uneconomic for ERTA members to continue to provide telecommunications and broadband services, much less reach a majority of consumers in the rural areas of America they serve.

ERTA offers the following specific comments on both USF and ICC reform issues that could cause inadvertent harm to consumers in rural America.

USF

The Commission should not make any significant and negative changes to existing high cost USF programs effective January 1, 2012 because RLECs would not have sufficient time to react and make reasonable adjustments to capital and operational plans in that time frame. Drastic short term and unexpected reductions in support will quite likely create cash flow problems for RLECs. These cash flow problems may put them in violation of debt covenants. A January 1, 2012 implementation date provides insufficient lead time to make reasonable business decisions. It is already too late for RLECs to conserve cash and halt planned 2012 and even early 2013 investments.

The facilities based voice and broadband services offered by ERTA members are capital intensive. Most competitors have chosen not to make investments in rural America where consumer densities are lower, household income is lower, and unemployment is higher. These investments take years to recover. Because of higher per consumer costs to serve rural areas and past regulatory policies, these investments were made on the premise of some certainty to recover costs and commitments to repay debts were made on this same premise.

Any action to suppress the ability of RLECs to recover past investments made to meet consumer demands would result in a sudden economic contraction of future investments and work counter to the Commission's desire to increase broadband adoption. If there is not sufficient USF support to help cover the higher costs required to provide services to consumers in rural areas, the alternative is for consumers to either pay above market rates for service or to disconnect services. RLECs that have already deployed broadband services have done so because support has been sufficient enough to offer services at market rates and use support to recover remaining costs.

Any flash cut reduction in USF support would be harmful to consumers, especially if the Commission does not provide a sufficient opportunity for RLECs to recover their legitimate costs without consumers being required to pay rates substantially above market. A phased in reduction is better for consumers than a flash cut, again as long as there is sufficient opportunity to recover costs. For example, an elimination of Safety Net Additive ("SNA") support, especially a flash cut elimination without a replacement cost recovery support mechanism would be harmful to RLECs and rural consumers served.

Elimination of SNA represents retroactive rate making. The Commission established rules that provided SNA under a formula that includes line losses. ERTA believes that it is appropriate to include line loss in the SNA formula, particularly because the industry cap for High Cost Loop Support includes a mechanism to reduce funding because of line loss. ERTA believes that the impact of line loss should be eliminated from either both equations or neither.

That said, the elimination of future payments based on prior grants is retroactive rate making and should not be part of any USF reform order. Retroactive rate making would provide a basis on which to challenge this certain to be controversial order. The Commission should continue to honor existing commitments and pay all prior grants of SNA until their completion.

ICC

ERTA is concerned about the ability for rural consumers to also be able to afford broadband if the Commission adopts a benchmark of $30 just for voice services. ERTA believes higher retail prices will lead to increased rural voice service disconnections and this would place a greater chill on future broadband investments in rural America. Many ERTA members currently charge residential consumers $20-25 per month for local only service and still rely on USF and ICC to recover the higher costs to serve rural consumers. Adding new burdens on existing consumers will further reduce revenues used to support existing networks. Today, the same network that provides quality voice service also delivers broadband service as well as high capacity service to cell sites. To the extent that the number of voice customers decrease as a result of higher prices, there would be increased cost pressure on the broadband and wireless back haul consumers have to pay for those portions of the network. The FCC should be mindful of increasing consumer rates beyond $25. Given the smaller local calling scopes available to RLECs and consumers, ERTA believes that this increase will violate the reasonably comparable urban and rural rate requirement.

ERTA believes that the Commission has two legal options. First, it can use the $25 benchmark proposed by the rural associations. Second, it can use the $30 rate, but it must allow companies to include other features or long distance usage bundled with local to meet the $30 threshold. Any RLEC that offers a bundled product to their consumers at $30 per month that includes local and long distance service should not be required to further increase its retail rates for access recovery.

Phantom Traffic

ERTA believes that properly addressing the issue of phantom traffic will require delivery of sufficient information on terminating calls to allow the terminating company to determine which company transporting and terminating the traffic will be responsible for paying ICC charges and not just the calling party's presubscribed long distance or wireless carrier.

Conclusion

Certainty and the opportunity to recover the costs of current investments are important now and in the future. In order to continue serving consumers with robust service, ERTA members need cost recovery of current network investments in addition to cost recovery of future investments. Without sufficient cost recovery to support current investments including loan payments on those investments, retail broadband prices will rise and penetration will suffer. In addition, without certainty with regard to future cost recovery, future investments needed for progress toward meeting the Commission's broadband goals will not occur.

ERTA further believes reform should include periods to pause and review results before automatically moving forward.

Sincerely,

/s/ *Jerry Weikle*

Jerry Weikle
Regulatory Consultant